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## **Silicon Valley enters 'new phase of uncertainty,' groups warn**

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Two Silicon Valley groups warned today that decisive action by business, government and education is needed if the region is to retain its standing as the world's innovation epicenter.

The warning is contained in the Silicon Valley Index, a look back at last year's economic carnage prepared by Joint Venture Silicon Valley Network and Silicon Valley Community Foundation, which issue annual reports on about 40 indicators of economic strength and the health of the community.

The groups said the valley's long road to recovery from the recession is complicated by state budget gridlock, decreased education funding and competition from other regions. There are "clear warning signs" that the valley has entered "a new phase of uncertainty" in which its standing as a tech center is at risk, the report said.

"It could be that Silicon Valley has a different future coming," said Russell Hancock, president and chief executive officer of Joint Venture Silicon Valley Network. "It's not a given that we will continue to be the epicenter of innovation."

Employment is back to 2005 levels, with 90,000 jobs lost in less than two years; the influx of foreign science and engineering talent has slowed; venture capital funding has declined and there are fewer middle income wage earners in a "hollowing out of the middle." Per capita income is down 5 percent from 2007, and the number of people working as contractors rather than full-time employees is rising.

Other regions are expanding their shares of federal spending, while the valley's share of federal procurement has dropped from 2 percent in 1993 to 1.3 percent in 2008.

Adding to the valley's problems is a malfunctioning state government that is shortchanging investment in education and infrastructure, the report said.

"Who wants to come here to a state with a \$20 billion annual deficit?" said Emmet Carson, chief executive and president of the Silicon Valley Community Foundation.

The two groups noted that there are plenty of candidates to take the valley's place as innovation capital: Austin and Huntsville, Ala., are beating the valley in snagging federal funds, the report notes. India or China also could someday wrest the title away from the valley.

"We're sort of sitting on our laurels and singing 'We're Silicon Valley,' " Carson said, while the valley risks falling behind as it emerges from the recession.

"We've got to have a call to action, to bring together our political, business and educational leadership and in a comprehensive way, or we are at risk," Carson said.

Total state funding for higher education declined 17 percent last year, even as the cost of education continued to rise, the index noted. Yet the valley will be increasingly dependent on homegrown talent for future innovation.

Kim Walesh, chief strategist in San Jose's Office of Economic Development, said the report "really nailed" the valley's increasing need for a healthy educational system. Because of post-9/11 restrictions on immigration and increased opportunities in India and China, the valley can't rely on foreign talent as it has in the past 25 years.

"We have a much tighter link between economic development and education," Walesh said.

"The next 25 years the major driver of the new workforce growth is the sons and daughters of those foreign immigrants who came here, and who have come up chiefly through our school system and now are clamoring to get into postsecondary school," she said.

Leslie Crowell, Santa Clara County's budget director, said the report reflects the problems that local governments are dealing with. "This index has a much more measured sense of caution about it than previous indices," she said. One thing that stands out, she said, is an office vacancy rate that shot up 33 percent last year from the previous year.

The index also had some good news. Clean technology is generating new, good jobs, and home foreclosures by lenders have leveled off. Median home prices are dipping, increasing the percentage of people who can afford a home in the valley.

Venture money, while down, is slowly returning and moving into biotech, energy and medical devices. The valley also is becoming a more sustainable place: Growth in energy usage is slowing and fuel consumption is down, while development patterns are "greener" — 21 cities have green building codes, and home construction is denser and more likely to be located near mass transit.

Budget director Crowell said the report shows that the valley is still a desirable place to live. "We're better off than other places in the nation," she said. "We're better off than Flint, Mich., but we never even thought we'd be comparing ourselves to Flint, Mich."

The index was released in advance of a town hall event, "State of the Valley Conference," Friday at the San Jose McEnery Convention Center.

The report is available at [www.jointventure.org](http://www.jointventure.org) and [www.siliconvalleycf.org](http://www.siliconvalleycf.org).

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